Bloomberg.com

Range Resources Races to Lease Farms as Gas Booms (Update2)

By Robert Tuttle

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March 27 (Bloomberg) -- **Range Resources Corp.**, the best-performing oil-and-gas producer in the Standard & Poor's 500 over the past year, is leading a natural-gas rush in Pennsylvania, where Edwin Drake drilled the world's first commercially successful oil well in Titusville in 1859.

With natural-gas prices up by more than a third since Dec. 3, Range Resources, **Atlas Energy Resources LLC**, **Chesapeake Energy Corp.** and **Cabot Oil & Gas Corp.** are leasing drilling rights along a swathe of land stretching from southwestern New York State into Pennsylvania, Ohio and West Virginia.

The race to find gas has increased the cost of leases 10- fold in the past month and has even swept up the **Drake Well Museum**, a few hundred feet from the historic site, which may drill a 6,000 foot-deep well to fuel exhibits and heat buildings.

``We are seeing this industry come back to where it began 150 years ago,'' said museum director Barbara Zolli, 64.

The main target of the energy companies is a 365 million- year-old formation known as the **Marcellus shale**. Its porous rock is probably the most gas-rich shale in the Appalachian Basin and may hold as much as 3.7 trillion cubic feet of recoverable fuel, said Chris Swezey, a researcher with the U.S. Geological Survey in Reston, Virginia. That's enough to supply the annual needs of as many as 51 million households, Energy Department data show.

Some experts say that's a conservative estimate. The Marcellus may contain as much as 50 trillion cubic feet of recoverable gas, equivalent to more than two years of U.S. consumption, **Terry Engelder**, a geosciences professor at Pennsylvania State University, said in an interview.

Cash Injection

The influx of energy companies is injecting cash into rural farming communities. Lease rates in Lycoming County, Pennsylvania, have climbed as high as $2,000 an acre, from about $200 a month ago and $15 two years ago, said **Tom Murphy**, a member of the natural gas exploration and leasing team at the Penn State Cooperative Extension office in Montoursville.

Jackie Root, 49, a gas lease consultant in Lawrenceville, Pennsylvania, said she began studying the area's potential in 2000 after receiving an offer to lease the drilling rights on her dairy farm, located near the New York border about 100 miles northeast of Scranton, for $2 an acre.

Standing next to a bulldozer in a hayfield on the 284-acre farm, Root points to a stick in the ground where closely held **East Resources Inc.** of Warrendale, Pennsylvania, plans to erect a drilling rig. East leased the land for five years in 2005 at $190 an acre and will pay a 12.5 percent royalty on the gas produced, Root said.

`Now Look'

``For years, I was like the village idiot,'' she said. ``Don't get that woman talking about gas. Well, now look.''

While the potential value of the Marcellus has been known for decades, the technology to break up the rigid shale and unlock the gas it holds wasn't perfected until the late 1990s, said Tony Carvalho, vice president of geology for Dallas-based **Chief Oil & Gas**, a closely held company that has completed four wells in Pennsylvania and plans 35 to 40 more this year.

Rising gas prices also make drilling worthwhile, Carvalho said in a phone interview. Sinking a well into shale costs $800,000 to $4 million, two to 11 times more than shallower wells, Kristi Gittins, a Chief spokeswoman, said in an e-mail.

Gas on the New York Mercantile Exchange reached $10.294 per million British thermal units, equivalent to about 1,000 cubic feet, on March 14. That was the highest intraday price since Jan. 4, 2006. It rose 0.6 cent to settle at $9.578 today.

Top Stock

Range Resources, whose shares have gained 96 percent in the past 12 months, began studying the Marcellus in 2004 and has since drilled 75 wells, **Rodney Waller**, the company's senior vice president, said in an interview.

In the past 11 months, Range drilled seven wells, each producing 3 million to 4 million cubic feet a day, Waller said. It plans 60 more in 2008.

``We've got about a three-year head start ahead of everybody else,'' he said.

Atlas, based in Moon Township, Pennsylvania, drilled 27 wells in the Marcellus since December 2006 and plans 150 more in the next 18 months, President **Richard Weber**, said in an interview. The shale yields 8 million cubic feet a day, about 20 percent of Atlas's regional output and 11 percent of its total.

While gas is the main focus for energy companies, oil production is also rising as prices reached a record $111.80 a barrel on March 17. Crude for May delivery rose $1.68, or 1.6 percent, to settle at $107.58 today on the New York Mercantile Exchange, up 6.7 percent since March 24 and 71 percent from a year ago.

Crude used in lubricants is being pumped from so-called stripper wells that yield a few barrels a week. New York's oil output, while representing less than 1 percent of U.S. production, expanded 133 percent in the five years ended Sept. 30, faster than any other state, Energy Department data show. Pennsylvania's grew 76 percent in the period, the third-fastest behind Montana.

East Resources, New York's largest producer, said crude output rose in 2006 to 140,000 barrels, 11 times more than two years earlier.

Energy companies may be laying the groundwork for more gains, Drake Well Museum's Zolli said.

``They are after the gas right now, but they will come back,'' she said. ``The oil is right on its heels.''

To contact the reporter on this story: **Robert Tuttle** in New York at **rtuttle@bloomberg.net**

Last Updated: March 27, 2008 17:35 EDT